

MEETING DATE: OCTOBER 20, 2004

SUBJECT: Procurement Authorization - Supply Of Paper

RECOMMENDATION

It is recommended that the Commission approve a contract award to Buntin Reid, Division of Domtar Inc. in the total upset limit of \$640,000 for the supply of various paper products over a three-year period from November 1, 2004 to October 31, 2007.

FUNDING

Sufficient funds are included in the 2004 TTC Operating Budget and will be included in future TTC Operating Budgets as required.

BACKGROUND

The Graphic Communications Printing Shop, in the Materials and Procurement Department uses a wide range of paper products for the printing of Operation Training Manuals, booklets, forms, timetables, Executive and Financial reports and Engineering and Construction tender documents. Direct marketing flyers are also printed which target transit opportunities to promote growth in various areas. Approximately eight thousand requisitions are processed annually out of which one half are for just-in-time forms requirements for the day-to-day operations of the Commission.

Presently, the supply of these paper products is covered through a contract with Coast Paper, which is due to expire on October 31, 2004.

Originally, when the current contract was awarded, pricing was subject to adjustment on a quarterly basis in accordance with the Pulp Index in the Industrial Products Price Catalogue (Statistics Canada). Subsequently, a settlement of claim with the current supplier was approved by the Commission to maintain pricing firm for the first year and thereafter, pricing would be subject to quarterly adjustments for the remaining two years of the contract based on a more appropriate and stable index from the same catalogue.

Staff was concerned as a result of information received from the current supplier for paper that prices have been volatile in the industry and that it would be problematic to provide firm pricing for more than one year for a new contract. In order to confirm these concerns, staff met with other potential suppliers and they confirmed this information. Suppliers also confirmed that there were no specific price indices for the various paper that accurately reflect the price changes they were experiencing when buying paper from the various mills that manufacture the acquired products.

DISCUSSION

Five companies were invited to submit proposals in addition to the public advertisement on the TTC website on August 20, 2004, out of which four companies submitted proposals as summarized on the attached Appendix A.

The Request for Proposal (RFP) separated the Commission's requirements for paper into two sections (product lists) covering the supply of various standard and miscellaneous fine paper (Section A) and carbonless fine paper (Section B). Proponents were required to provide pricing for each item on the specified product lists based on estimated quantities.

Due to fluctuations in the price of paper and the inability to secure firm pricing for a 3 year contract, four separate pricing options were provided in the RFP to give Proponents more flexibility in pricing. The RFP specified that any proposed increase during the term of the contract, regardless of the option, must be substantiated in writing by the paper manufacturer/mill to the Commission and that staff reserved the right to validate any request for a price increase with other manufacturers/mills.

The four pricing options consisted of: Option 1 requested annual firm pricing for three years; Option 2 requested firm pricing for the first year and a maximum annual increase for years 2 and 3 as specified by the proponent; Option 3 requested firm pricing for the first six months and a maximum quarterly percentage increase for each subsequent 10 quarters of the contract as specified by the Proponent; Option 4 allowed proponents to propose alternative pricing structures.

Each of the four pricing options also requested proponents to provide a percentage price discount (firm for the contract) off the proponent's prevailing catalogue prices for all items not included in Sections A or B. The value of this portion is estimated to amount to approximately 5% of the total upset limit of this contract.

For evaluation purposes, the maximum percentage price increase received from each proponent, for each pricing option, was applied. Proponents were also required to submit product catalogues with current price lists, swatch booklets for all fine and miscellaneous paper specified in Section A and a list indicating which manufacturer or mill will be supplying the paper during the term of the contract.

Unisource Canada submitted pricing for Option 4 only and had the lowest apparent overall pricing. Their submission for items in Section A is based on a maximum quarterly increase of 3%, and for items in Section B is based on a maximum annual increase of 3%. However, their proposal is considered incomplete as they failed to submit their price products catalogue for items not included in the Product List which was a submission requirement. Their submission is considered non-compliant and is unacceptable.

Buntin Reid submitted pricing for 3 of the 4 Options and had the second lowest overall evaluated price based on Option 2. They offered a maximum yearly increase of 15% for both years 2 and 3. In addition, they submitted a 27% discount applicable to all paper products identified in their latest published catalogue for items not included in the Product List. They had previously supplied this requirement and their performance was considered satisfactory. They did not take any exceptions or qualifications and are considered commercially compliant. Buntin Reid proposal is the lowest compliant bid and they are recommended for award in the upset limit of \$640,000.

Coast Paper submitted pricing for Option 4 only and had the third lowest overall evaluated price. Their submission included a maximum quarterly increase of 7.5% for years 2 and 3. In addition, they submitted a 23% discount from their pricing for products not included in the Product List. Coast Paper did not take any exceptions or qualifications and are therefore considered commercially compliant. Their proposal is the second lowest compliant and is considered acceptable. Coast's performance as the current vendor is considered satisfactory.

Cascades Resources (Cascades) submitted proposal pricing based on Options 2 and 3, however they provided pricing for only year one of the contract. Cascades indicated that they could not guarantee pricing after the first year of the contract and did not include an escalation formula for years 2 and 3. Additionally, they failed to submit their complete products catalogue, including pricing for items not included in the Product List, which was a submission requirement. Cascades' proposal is considered incomplete and is considered commercially non-compliant.

The recommended upset limit includes a 10% allowance for variation in usage over the three years of the contract.

The pricing submitted by Buntin Reid for the first year of the contact is approximately 4.4% lower than the pricing on the current contract. The pricing for years 2 and 3 will not exceed 15% in each year over the previous year's pricing subject to written substantiation by the paper manufacturer/mill.

It should be noted that the supplier is not entitled to the annual maximum 15% increases, rather any annual increase must be substantiated by their manufacturer/mill in writing and staff will verify such increases are consistent throughout the industry. However the actual increases that will be incurred are unknown at this time.

The factors affecting the cost of paper include the raw materials (pulp and additives) as well as freight, energy, currency exchange rates, labour, technology, and market demand and supply. Prior to the first quarter of 2004, North American commodity paper grades experienced an 18 month period of ongoing price reductions (Sept 2002 – Feb 2004), but since March 2004, major North American mills have announced no fewer than 4 separate price increases with additional upward adjustments anticipated prior to year-end. As of June 2004 overall demand in North America for paper exceeded combined mill output due to significantly increased market demand coupled, in part, with combined reduction on overall production capacity (mill closures, paper machine downsizing and/or redeployment). Therefore additional price increases are anticipated.

Although not an indicator of future price increases, according to the Statistics Canada index for writing and reproduction paper, the price of paper has increased approximately 5.5% over the past year.

JUSTIFICATION

Award of this contract will ensure the uninterrupted supply of paper to the Graphic Communications Section.

October 7, 2004

9-118-30

Attachment – Appendix 'A'

APPENDIX 'A'

SUPPLY OF PAPER

PROPOSAL SUMMARY

	BUNTIN REID			CASCADES RESOURCES		COAS
	Option 2	Option 3	Option 4	Option 2	Option 3	Op
SECTION A	\$337,604.62	\$356,711.67	\$344,382.25	\$106,085.88	\$51,126.66	\$453,13
SECTION B	\$211,160.51	\$215,379.43	\$215,378.46	\$ 76,610.14	\$33,667.73	\$337,15
MISC. PAPER	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	NO BID	NO BID	\$ 35,70
3 YEAR TOTAL	\$578,765.13 *	\$602,091.10	\$589,760.71	\$182,696.02	\$84,794.39 **	\$825,99

* Buntin Reid Option 2 is recommended for award

** Cascades' submitted a partial bid and therefore their total is incomplete

*** Unisorce submitted a partial bid and therefore their total is incomplete